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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 001438

SIPDIS

STATE FOR EB/TPP/BTA, NEA/ARPI, NEA/PI
STATE PASS USTR FOR DOUGLAS BELL

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SUBJECT: US/UAE FTA FIRST ROUND

Classified By: (U) Classified by Ambassador Michele J. Sison for reason
s 1.4 (b) and (d).

11. (C) Summary: The United States and the UAE held the first round of Free Trade Agreement negotiations in Abu Dhabi, March 8-10. UAEG leaders are enthusiastic about the prospect of an FTA with the United States. After a somewhat slow start the negotiators made significant progress, concluding the round on an upbeat, positive note. With sufficient progress by the Emiratis before the next round, it should be possible to close on 3-4 chapters and make significant progress on the remainder. While there were no surprises raised in the negotiations, it is clear that resolving the issues of the Agency and Company laws will be challenging. The U.S. and the UAE agreed to hold a second round of negotiations in early May. Press coverage of the negotiations was positive, and nearly all articles included quotes from the lead negotiators about a bilateral FTA not violating the UAE's GCC obligations. The UAE business community, while cautiously optimistic about the FTA, is frustrated with a lack of transparency from the UAEG. It will be incumbent on the UAEG to increase its outreach to the business community in the coming months. End summary.

ENTHUSIASTIC LEADERS, NERVOUS NEGOTIATORS

12. (SBU) UAE leaders are enthusiastic about an FTA with the United States and are committed to the process. UAE lead negotiators, Minister of State for Financial and Industrial Affairs Mohammad Khalfan bin Khirbash and Minister of Economy and Planning Sheikh Lubna Al Qasimi, acknowledged public concerns about possible negative effects of an FTA for certain companies and individuals in the UAE, but they both noted the UAEG leadership's staunch commitment to moving forward. Minister of Information and Culture, Sheikh Abdullah Bin Zayed Al Nahyan explained that the FTA with the United States is a critical part of the leaders' efforts to keep the UAE a "modern success story."

13. (C) Working-level negotiators were nervous that they would unintentionally commit the UAE to unfavorable terms, and focused on the meaning and implications of the proposed text. Many of the negotiating groups reported significant progress by the end of the first round and agreed on an aggressive set of deliverables between now and the next round. The Central Bank Governor, who chaired the Second Trade Investment Framework Agreement meeting in Washington last October, attended the Financial Services sub-group, sending a message to the negotiators that he was personally committed to coming out of the first round of negotiations with positive momentum.

AUSTR NOVELLI DISCUSSES GCC, LABOR DURING BILATS

14. (SBU) AUSTR Novelli held separate bilateral meetings with Dubai Crown Prince Mohammed Bin Rashid Al Maktoum (MBR), Minister of Information and Culture Sheikh Abdullah Bin Zayed Al Nahyan, and Minister of Labor Dr. Ali Bin Abdullah Al Ka'abi. Sheikh Abdullah and Dr. Al Ka'abi both admitted that the UAE has not finished drafting legislation to allow for collective bargaining and right of representation, but the Ministry of Labor is working with the ILO to ensure that the draft law conforms to ILO standards. Dr. Al Ka'abi explained that the UAE is considering a staged approach to the right to representation that may initially permit membership for UAE nationals only. He said the ILO agreed in principle to this strategy, but would come to the UAE at the end of March or early April to review the specifics of the draft law. In a country where 91 percent of workers are expatriates, UAE leaders have serious national security concerns over the prospect of allowing trade unions. According to Sheikh Abdullah, "this issue is not cultural or economic -- it has to do with our existence." AUSTR Novelli noted the importance of the UAE putting in place an ILO-compliant labor law in a timely fashion if this agreement is to be successfully ratified in the U.S. Congress.

15. (SBU) In light of recent publicity regarding Saudi Arabia's discontent with bilateral FTAs, Sheikh Abdullah said that UAE businesses are worried that an FTA with the United States would create problems with trading with Saudi Arabia

in the future. According to Sheikh Abdullah, the Saudis do not understand that other Gulf countries are seeking to obtain the benefits of bilateral FTA's. The Saudis think the other GCC states are doing it to taunt Saudi Arabia. Echoing other leaders' concern over the challenges of bringing Saudi Arabia up to the level of the other GCC countries in terms of trade liberalization, MBR said it would never be possible to conclude a multilateral US/GCC FTA and therefore GCC countries needed to pursue bilateral agreements. (Note: Novelli's discussions about camel jockeys will be reported septel.)

POSITIVE PRESS -----

16. (U) Optimistic soundbites by Dr. Khirbash were widely reported in the run-up to and during the negotiations, as were positive comments from AUSTR Novelli's multiple press interactions. The press also stressed her assertion that there are no political preconditions for an FTA, and that the U.S. will not demand lifting the Arab League boycott on Israel. In particular, the press focused on the lead negotiators' comments that a bilateral FTA does not contradict the UAE's GCC obligations. The press articles highlighted that, with the exception of Saudi Arabia, all of the other Gulf states are keen on entering into bilateral FTAs with the United States. The press also highlighted Jordan's significant economic growth after the implementation of its FTA with the U.S. as a demonstration of how the UAE economy will benefit.

LACK OF TRANSPARENCY CONCERNS UAE BUSINESS COMMUNITY -----

17. (SBU) The Dubai business community expressed frustration at the UAE Government's lack of transparency on the process of the FTA negotiations. Obaid Al Tayer, President of the Dubai Chamber of Commerce and Industry (DCCI) claimed that not a single UAEG official had met with the business community to provide information or allay fears. (Note: The UAEG has consulted with the UAE business community -- including the DCCI -- but the extent and depth of the consultations was clearly not sufficient to allay the business community's concerns, and government negotiators have made no secret of their strong preference to keep the Dubai Chamber at arm's length.) In response to Al Tayer's claims that the UAEG was using confidentiality agreements with the U.S. to restrict access, Novelli was clear that U.S. policies do no such thing, and the U.S. actively consults with the private sector; witness the meeting Al Tayer was attending.

18. (U) The UAE business community was selectively informed about specific content of previous U.S. FTA agreements in the region, and asked many detailed questions, some out of context, about previous FTAs that they thought could prove problematic to local industries. They also made the observation that a good agreement is better than a fast agreement, and expressed concern about the pace of the process. Major themes were concerns about an FTA affecting trade with Saudi Arabia and Iran, the national security implications of lopsided UAE demographics (over 80 percent of the population is made up of foreign nationals), the ability of small and medium companies to access the U.S. market and remain competitive in the UAE (particularly in the financial services sector), and national treatment for investors (particularly regarding market access and government procurement). AUSTR Novelli addressed all of their concerns, but notable in its absence was the failure by the business community to raise the Agency issue) their real source of concern.

US BUSINESS COMMUNITY ENTHUSIASTIC -----

19. (U) The American business communities in the UAE expressed optimism over the potential FTA, and reiterated many of their previously expressed complaints about the UAE, particularly in regard to agencies requirements. They also noted the need for a legal framework to protect U.S. companies as part of the FTA. Several company representatives expressed skepticism that the UAE would ever do away with Agency stipulations and the 51/49 percent ownership requirements of the Companies Law.

110. (U) This cable has been cleared by AUSTR Novelli.
SISON